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May REVISION

PETE WILSON, GOVERNOR
STATE OF CALIFORNIA

Governor's Budget 1996-97

The May Revision to Governor Wilson's January budget provides updated economic and revenue forecasts, as well as the latest caseload, enrollment, and population information for programs in the health and welfare, education, and public safety areas. It contains the latest information on state expenditures for the current and coming fiscal years, and provides the latest projections on federal actions that affect state spending.

Key Features

The principal feature of the May Revision is a substantial increase in spending on primary and secondary education programs. Ongoing strength in the state's economy has produced an additional $1.7 billion in revenues for Grades K-12, which the Governor proposes to invest in critical areas. These include:

- ▲ $460 million to begin a program that will reduce class sizes in Kindergarten through Third Grade classrooms.
- ▲ Doubling the Governor's reading initiative to now provide $200 million for new reading materials and improved instruction.
- ▲ One-time direct grants of $50,000 to each of the 7,700 school sites throughout California, with local officials given broad authority to determine how best to invest these funds for their students.
- ▲ Increasing the Governor's Preschool expansion program by $30 million, which will provide preschool services to an additional 17,000 three- and four-year-olds.

▲ Over $380 million in block grants to school districts, including $100 million for educational technology and more than $80 million for textbooks and library resources.

Other key features of the May Revision include:

▲ A balanced budget with General Fund expenditures held more than $580 million below General Fund revenues.

▲ The Governor's proposal to reduce all personal and corporate income taxes across the board by 15 percent over three years.

▲ Implementing proposals put forth in the Governor's *California Competes* initiative.

▲ Full funding for the second year of the Governor's four-year Compact with Higher Education, with no student fee increases proposed for the state's universities and colleges.

▲ Additional reductions in entitlement programs, necessitated by the federal government's failure to enact welfare reform legislation and to fully fund California for its illegal immigration costs.

What's Happened Since January

The following developments at the state and federal level have occurred since the Governor's budget was submitted to the Legislature in January, and are reflected in the May Revision. A more detailed discussion of these issues can be found further in this document.

In the Economy. California's economic growth continues to outpace the nation's rate of growth, with the state on a pace to create more than 300,000 new jobs in both 1996 and 1997. Growth continues to be strong in such high-wage industries as electronics, software, motion pictures and multimedia. Double-digit gains in exports are boosting the state's economic performance, growth in manufacturing is bucking the national trend of factory cutbacks, and the aerospace and telecommunications industries are showing signs of job stabilization.

In Revenues. The state's solid economic growth has translated into a substantial boost in state revenues. For the current year, General Fund revenues are forecast to be more than $1.1 billion above the January forecast, and nearly $1.5 billion above the forecast for 1996-97 for a combined total of more than $2.6 billion. In addition, prior year revenues have been revised upward by more than $100 million. The most significant factor to revenue growth is strength in withholding for the Personal Income Tax, which is resulting from such factors as job growth in high-wage industries and wages increasing faster than the rate of inflation.

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In Caseload Programs. Each of the state's principal entitlement programs—AFDC, Medi-Cal, and SSI/SSP—are growing at slightly slower rates than forecast in January. Prison and ward populations for the Department of Corrections and the Youth Authority, while continuing to grow on a year-over-year basis, are growing slightly less than the January forecast.

In Federal Issues. The most significant action to date has been the failure to enact federal welfare reform legislation. In addition, federal reimbursement for California's incarceration and health care costs for illegal immigration are below the January estimates. The May Revision projects that the federal government will enact legislation to eliminate maintenance-of-effort requirements that now government entitlement programs, allowing the state to implement entitlement changes already approved by the state Legislature as well as changes proposed for 1996-97.

In Summary. The following major General Fund changes have occurred between the January Budget and the May Revision:

Total General Fund Revenue Increase	$2.7 Billion
Proposition 98 Share of New Revenues (K-14)	-$1.8 Billion
Balance Available for Non-Prop 98 Expenditures	$0.9 Billion
May Revision to Expenditures (Net Savings)	$0.2 Billion
Balance Available	$ 1.1 Billion
Lost Savings due to Federal Delays	-$1.3 Billion
Additional Expenditure Reductions Required	$0.2 Billion

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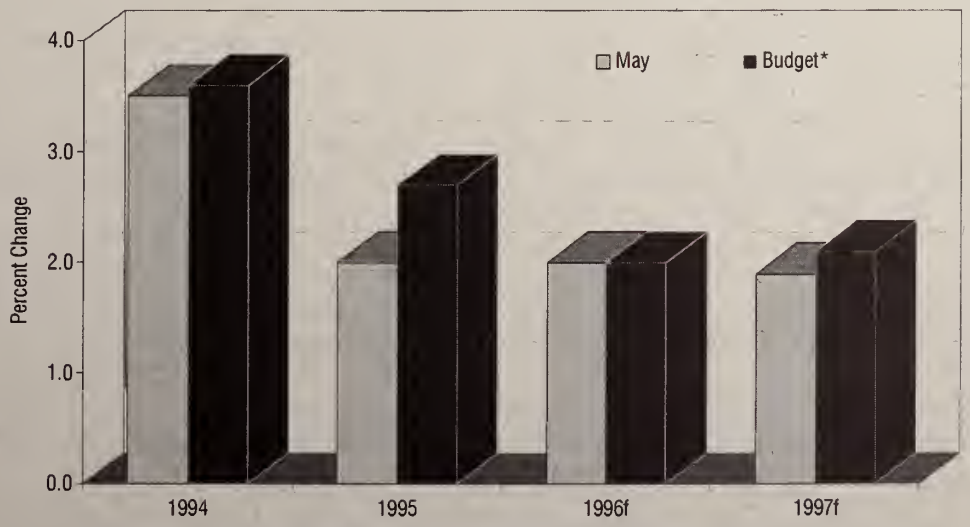
The national economy struggled through much of 1995. Revised gross domestic product (GDP) data show that growth was less than 1 percent at an annual rate in three of last year's four quarters. But despite a severe winter in the East, continuing federal government shutdowns and a General Motors strike, growth picked up smartly in the first quarter of 1996. The advance estimate places first quarter growth at a 2.8-percent yearly pace.

Of particular interest to California was the continued strength in business and household purchases of computers in early 1996. High-tech spending had been widely expected to slow significantly after a year-end 1995 spurt. There *was* some slowing: business purchases of computers and related equipment advanced at "only" a 51-percent annual rate in the first quarter, compared to 71-percent real growth in the last three months of 1995.

Major GDP revisions, released at the end of January, included new methodology which reduces measured growth in "real" or inflation-adjusted GDP. On the new basis, the current 2-percent growth forecast is roughly equivalent to 2.5 percent on the old measurement. Despite this change, the fundamental outlook for the US economy is very similar to the January Budget. Reflecting the realities of recent gasoline and food commodity price hikes, interest rates rise a little more quickly than in the January outlook. Consumer price inflation in 1996 and 1997 is a moderate 0.4 percent higher than in the January forecast.

Real Gross Domestic Product Growth



*Budget adjusted to new chain-weighted calculation method.
f=forecast

The modest rise in interest rates, coupled with unfavorable demographics—the dwindling young-adult population—will continue to dampen homebuilding. The combination of high household debt and rising borrowing costs will also limit new car and light truck sales. Overall, consumer spending will ease from last year's 2.5-percent increase in real terms to around 2 percent by 1997.

Business investment spending should continue to expand, with a more even balance between equipment and construction. Inventories will be a small drag on growth this year, but should give the economy a small boost in 1997.

Export prospects remain positive, with Japan's economy now firmly established on a recovery path. Given somewhat slower growth in consumer spending, import growth should continue to lag export gains, leading to a modest improvement in the trade balance.

Federal government outlays—mainly defense—will continue to decline, only partially offset by growth in state and local purchases. Government spending in gross domestic product excludes transfer payments such as Social Security, Medicare and Medicaid, which will continue to rise.

The Economy

California's economy is continuing to thrive even against the background of relatively tepid nationwide economic growth. Nonfarm wage and salary employment growth in the first quarter of 1996 averaged almost 3 percent compared to the year-earlier level. Although job gains in early 1995 were temporarily held back by unusually wet weather, underlying job growth is still in excess of 300,000 jobs a year—a pace which is expected to continue both this year and next. Highlights of the California forecast include:

- Employment growth of 2.7 percent this year and 2.6 percent in 1997, adding 660,000 jobs in two years. Unemployment will decline to less than 7 percent next year.

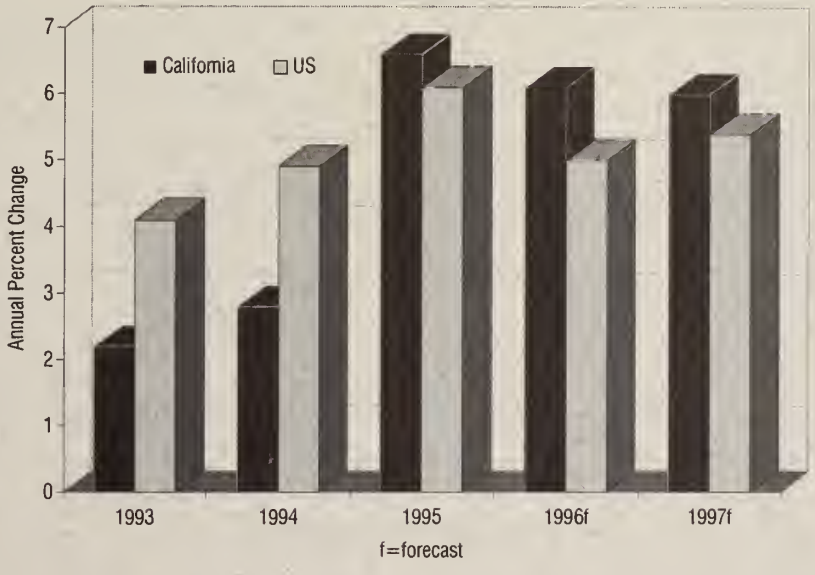
- Personal income will grow by 6 percent per year, more than matching last year's underlying 5.8-percent increase. (Last year's reported gain of 6.6 percent included 0.8 percent related to recovery from the Northridge earthquake.)

- Inflation will remain below the national average. Consumer prices are expected to be up 2.7 percent this year and 3.1 percent in 1997. Real incomes, therefore, will rise by more than 3 percent each year.

▲ Homebuilding is forecast to increase moderately to 101,000 units this year and 112,000 in 1997. Given continued strong job growth, however, there is considerable upside potential in this forecast. Nonresidential construction is expected to post gains in dollar volume of more than 15 percent both this year and next year.

Engines of Growth. Growth is being driven by a variety of high-technology goods and services, including such traditional California specialties as motion pictures, electronics manufacturing, apparel and tourism, as well as emerging industries such as computer software, multimedia and biotechnology. Booming exports—up 22 percent last year on top of a 15-percent gain in 1994—are playing a role in virtually every facet of the state's economy.

Personal Income Growth
California and U.S.



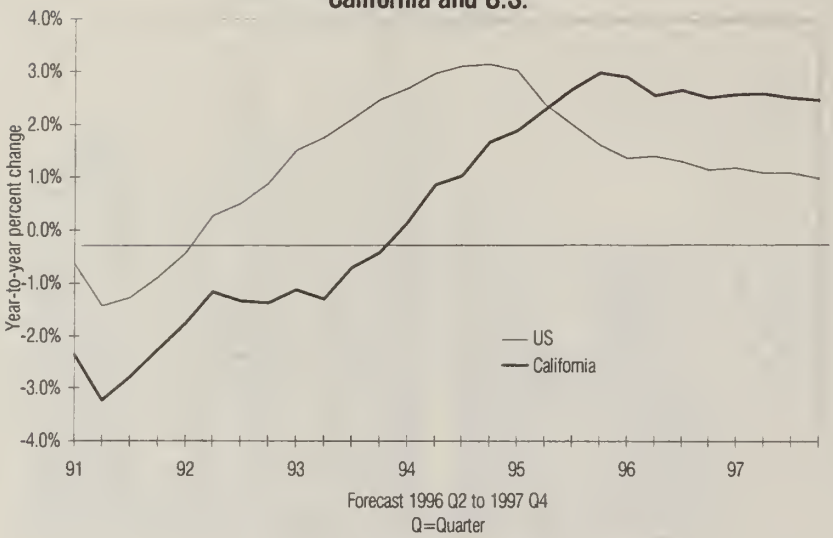
Most of these growth industries are in high-wage sectors as well. Wages in electronics average more than $45,000 per year; in motion picture production, more than $50,000; and in the software and multimedia industries, almost $60,000. All of these are export industries and many are service jobs—a fact which should put to rest the notion that jobs in the services sector are somehow inferior to those in manufacturing.

Manufacturing is also contributing to California's recovery. The State continues to buck the national trend in factory jobs. Over the last year, California manufacturers have added almost 30,000 jobs, while factories nationwide cut payrolls by over 300,000.

Moreover, several of the state's "restructuring" industries are showing signs of stabilization and even growth. Aerospace job losses have virtually ceased, partly reflecting an upturn in commercial aircraft orders. While jobs in the aircraft, missiles and space, and navigation instruments industries may drift slightly lower in the months ahead, the industry is no longer a drag on the state's economy and can realistically look forward to the beginnings of recovery in the next year or two. In telecommunications, gains in "wireless" (cellular) systems are now offsetting losses in traditional telephone activity.

Improved prospects for these and other industries in the State are important, since the explosive growth in several of the newer industries will not be sustained indefinitely. At the same time, concerns that a major slowdown in the electronics industry is imminent are also overstated, as evidenced by continued strength in computer sales during this year's first quarter.

Nonfarm Employment Growth
California and U.S.



Compared to the January forecast, the employment outlook is little changed, with this year's job gain virtually identical to the January figure, and 1997 boosted by about 33,000. Personal income estimates for 1995 were about 1 percent less than forecast in January, and although growth is slightly higher in the current 1996 and 1997 forecast, income averages about $3.5 billion or 0.5 percent less than projected in January.

Given the strength of personal income tax withholding the downward revision in income is somewhat puzzling. With wage increases outstripping California's very low inflation rate—the state consumer price index rose only 1.7 percent last year—it is likely that more taxpayers are being pushed into higher withholding brackets. And, as noted above, employment growth is being led by gains in high-wage industries, which would also tend to increase withholding tax collections as a proportion of income.

Reflecting the slower pace of new home construction, growth in new housing permits is revised down by 12,000 units each year compared to the January Budget. In 1996, this is more than offset by a stronger pace of nonresidential construction, reflecting falling commercial and industrial vacancy rates throughout the State. Given strong job gains, this restrained housing outlook represents an upside risk in the forecast.

SELECTED NATIONAL ECONOMIC INDICATORS
Comparison of May Revision and Budget Forecasts
(Percent change from previous year)

	1995**	1996	1997
Real Gross Domestic Product (GDP)			
May Revision	2.0	2.0	1.9
January Budget *	2.7	2.0	2.1
Personal Income			
May Revision	6.1	5.0	5.4
January Budget	6.0	4.7	4.9
Corporate Profits Pre-Tax			
May Revision	13.7	4.9	-3.2
January Budget	8.8	5.0	5.8
Consumer Price Index			
May Revision	2.8	3.2	3.6
January Budget	2.9	2.8	3.2

* Restated to be roughly comparable to new chain-weighted GDP measure.
** All 1995 data except consumer prices reflect major revisions released on January 29, 1996.

SELECTED CALIFORNIA ECONOMIC INDICATORS
Comparison of May Revision and Budget Forecasts

	1995	1996	1997
Nonfarm Employment (000)			
May Revision	12,459	12,791	13,118
January Budget	12,471	12,790	13,085
Percent Change			
May Revision	2.5	2.7	2.6
January Budget	2.5	2.6	2.3
Personal Income ($ Billion)			
May Revision	$749	$795	$843
January Budget	$756	$799	$846
Percent Change			
May Revision	6.6	6.1	6.0
January Budget	7.6	5.7	5.9
Housing Permits (000)			
May Revision	86	101	121
January Budget	88	113	133
Consumer Price Index			
Percent Change			
May Revision	1.7	2.7	3.1
January Budget	1.8	2.3	2.6

Revenues are projected to be $1.146 billion above the 1996-97 Governor's Budget forecast for the current fiscal year and $1,486 million above for the budget year, for a combined total of $2.632 billion. These increases are a reflection of recent cash experience—in particular, withholding—as well as a recalibration of the tax models that incorporate the 1994 personal income sample data and the revised economic data. In addition for the prior year, revenues have been increased by $117 million from the Governor's Budget forecast. This revision is attributable to updated accrual information that was not available when the Budget was prepared, and is consistent with the Controller's published revenue for the year. Combined, over the three years, revenues are $2.749 billion above the Governor's Budget forecast. Based upon the May projections, revenues are expected to grow 8.1 percent between 1994-95 and 1995-96. From 1995-96 to 1996-97 revenue growth is estimated at 2.0 percent which is lowered due to the end of the 10 and 11 percent tax rates and the Governor's tax reduction and trial court funding proposals.

The May Revision reflects the Governor's tax reduction initiatives presented in the 1996-97 Budget, including the proposed 15-percent reduction in personal income and bank and corporation tax rates over a three-year period. The forecast also assumes enactment of selected conformity with Federal law (discharge of indebtedness and passive activity losses), and provisions to ensure that similar benefits are provided in all enterprise zones.

Personal Income Tax

The largest single change affecting the revision to the personal income tax forecast has been the strength in withholding. Several factors have contributed to the upward revision in withholding:

- ▲ Bonus payments for high-wage employees appear to have been exceptionally strong.
- ▲ Economic growth has been very strong in high-wage industries (e.g., electronics, computer software, and motion pictures).
- ▲ Average wages have increased faster than inflation, resulting in higher average tax rates.
- ▲ Revised employer reporting requirements impacted the year-end accrued withholding data.

The estimate incorporates new sample data from 1994 tax returns that was recently provided by the Franchise Tax Board resulting in little change from what had been assumed in the Governor's Budget in this base year.

The current forecast for capital gains realizations is also very close to the Governor's Budget, with only a minor change in the 1996 tax year growth. The stock market was especially strong in 1995, which pushed up capital gains by an estimated 20 percent. Gains for 1996 and 1997 are estimated to grow by 8 percent and 5 percent, respectively. Reflecting the strength of the economic recovery, trend growth in overall personal income tax revenues (adjusted for tax law and administrative changes) was up a strong 15 percent in 1995-96 and is expected to grow another 8 percent in the budget year. Consistent with the Governor's Budget, the estimate assumes that legislation will be adopted at the federal level providing California with the authority to establish an IRS refund offset program.

Sales and Use Tax

Sales and use tax revenues are up by $145 million for 1995-96 compared to the Budget forecast, and are expected to be up by $210 million for the budget year. These upward revisions reflect moderately stronger first quarter 1996 sales—which appear to have increased more than 8 percent from the prior year—and a recalibration of the economic data used to forecast future sales and use tax revenue growth. The May Revision forecast anticipates taxable sales gains of nearly 7 percent in 1996 and 5 percent for 1997. Significant components of predicted sales and use tax revenue growth include manufacturing (likely spurred in part by the manufacturers' investment credit), motor vehicle sales, and general merchandise (which includes department, drug, and grocery stores). Sharp increases in gasoline and diesel fuel prices during the second quarter of 1996 are expected to continue through the end of the third quarter of 1996, before falling back to a level roughly 10 cents above the national average. These recent price rises do not significantly contribute to overall sales and use tax revenue growth, however, because fuel sales comprise only 7 percent of total taxable sales.

Bank and Corporation Tax

Most of the increase in the bank and corporation tax revenue estimate reflects a slight upward revision in the taxable profits outlook. Growth in the 1996 taxable profits forecast has been revised from 7.8 percent to 8.2 percent, a revision consistent with recent cash experience. Taxable profits are expected to continue growing in 1997, although at a lower rate of growth from 1996. The forecast estimates 1997 taxable profit growth at 5.1 percent. Other factors which affected the forecast were revised expectations on audit and settlement activity through the forecast period. The current year forecast was increased by $70 million to reflect a reassessment of settlement refunds that had previously been anticipated in June. For the budget year, an additional $49 million is now expected to be received from audit activity. As with the Governor's Budget forecast, this estimate assumes that the Governor's tax proposals will be enacted.

Other Revenues

Changes in all other revenues were driven principally by abandoned property (up $60 million in the current year) and investment income (up $47 million in 1995-96 and $41 million in 1996-97). This increase in income from Pooled Money Investments primarily reflects the General Fund's improved fiscal situation. As with the Governor's Budget forecast, this estimate assumes that the Governor's proposal to consolidate trial court funding in the Trial Court Trust Fund will be enacted. This shifts these revenues out of the General Fund in 1996-97.

In addition the following adjustments have been made:

Malibu/Abramovitz Lawsuit Judgment

This judgment provides for the payment of $119 million to various special funds from the General Fund to return certain transfers that were made to the General Fund per the Budget Acts of 1991, 1992, 1993, and 1994. The judgment requires an initial payment in 1996-97 and a final payment by 2000-01. The judgment also provides for a 7-percent interest payment.

Attorney fees of $1.7 million were paid in 1995-96 an amount that will be deducted from the $119 million that will be transferred to the special funds, as specified in the judgment. One-fifth of the remaining judgment amount, plus interest that accrues from the judgment date, for a total of $26.6 million, will be transferred to the special funds on July 1, 1996 to satisfy the 1996-97 payment requirement.

1993-94 Control Section Transfers

Control Sections 13.50, 13.60, 13.70, 13.80, and 13.81 of the 1993-94 Budget Act authorized transfers to the General Fund from various special funds. Executive Orders were never issued to effect these transfers as litigation (Malibu/Abramovitz) was pending which included challenges to these transfers. The lawsuit has been settled and the judgment provides for specific returns of moneys to special funds.

An extensive fund-by-fund legal review was undertaken regarding the transferability of moneys to the General Fund. Based on this review, transfers pursuant to these sections totaling $10.2 million to the General Fund will be made in 1995-96 and have been included in the May Revision. Additional transfers may be made based on additional legal determinations.

General Fund Revenue Forecast
Reconciliation with the Governor's Budget Forecast
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change Between Forecasts	
1994-95				
Personal Income Tax	$18,500	$18,605	$105	0.6%
Sales & Use Tax	14,630	14,630	0	0.0%
Bank & Corporation Tax	5,708	5,719	11	0.2%
Insurance Tax	999	999	0	0.0%
Other Revenues	2,383	2,384	1	0.0%
Transfers	353	353	0	0.0%
Total	**$42,573**	**$42,690**	**$117**	**0.3%**
1995-96				
Personal Income Tax	$20,220	$20,870	$650	3.2%
Sales & Use Tax	15,545	15,690	145	0.9%
Bank & Corporation Tax	5,680	5,890	210	3.7%
Insurance Tax	1,139	1,147	8	0.7%
Other Revenues	2,114	2,243	129	6.1%
Transfers	293	297	4	1.4%
Total	**$44,991**	**$46,137**	**$1,146**	**2.5%**
1996-97				
Personal Income Tax	$20,583	$21,650	$1,067	5.2%
Sales & Use Tax	16,275	16,485	210	1.3%
Bank & Corporation Tax	5,620	5,835	215	3.8%
Insurance Tax	1,120	1,089	-31	-2.8%
Other Revenues	1,878	1,931	53	2.8%
Transfers	95	67	-28	-29.5%
Total	**$45,571**	**$47,057**	**$1,486**	**3.3%**

K-12 Education

The May Revision increase continues to reflect funding for K-12 education as the Governor's highest priority for allocation of state resources. The increase in state revenues provides total new Proposition 98 resources for K-12 education above the January budget which total nearly $1.7 billion. From the time the 1994 Budget Act was signed by the Governor, an additional $3.7 billion has been added to the Proposition 98 K-12 budget. K-12 education total General Fund of $18.6 billion now represents 40.3 percent of the total General Fund budget. The Governor proposes to use this substantial infusion of funds for significant new programs which will assist the schools to improve the quality of education for California's 5.5 million K-12 pupils. The highlights of the Governor's May Revision proposal for K-12 education are: Class-Size Reduction ($459.6 million), Reading Improvement ($200 million in state and federal funds), School Site Grants ($387 million), District Level Grants ($383.4 million), Deferred Maintenance ($140.5 million), and the Preschool Program ($30 million).

Proposition 98 Guarantee

1995-96 $643.3 million
1996-97 $1,008.5 million

When the Governor's Budget was presented in January, Proposition 98 appropriations in the current year were estimated to be increased by $94.6 million in 1994-95 and $674.3 million in 1995-96 to meet the revised minimum guarantee levels for those years. Funding per K-12 pupil in January was estimated to grow by $228 between 1994-95 and 1996-97, from $4,316 per pupil to $4,544 per pupil. The May Revision reflects not only significant changes to state revenue estimates, but also includes a revised civilian population series dating back to 1989-90. Both of these factors, as well as revisions to local property tax revenue estimates and Average Daily Attendance (ADA), impact the Proposition 98 guarantee. Local

PROPOSITION 98
January vs. May Revision
(Dollars in Thousands)

1995-96	January Proposal	May Revision	Change
General Fund	$16,841,641	$17,484,900	$643,259
Local Revenue	9,934,271	9,933,851	-420
Total Guarantee	$26,775,912	$27,418,751	$642,839
1996-97	**January Proposal**	**May Revision**	**Change**
General Fund	$17,707,662	$18,716,210	$1,008,548
Local Revenue	9,994,424	9,985,959	-8,465
Total Guarantee	$27,702,086	$28,702,169	$1,000,083

property tax estimates have changed only nominally since January. While the 1996-97 level of ADA remains about the same as the January estimate, the Proposition 98 ADA growth rate increased from 2.27 percent to 2.55 percent as a result of a downward revision to estimated ADA in 1995-96.

The minimum funding guarantee for fiscal years 1994-95, 1995-96, and 1996-97 increased since January by $192.6 million, $643.3 million, and $1,008.5 million, respectively. In addition, the revised civilian population series results in a $16.3 million obligation to meet the new 1991-92 Proposition 98 minimum funding guarantee. As a result, funding per K-12 pupil will be $4,714 in 1996-97, which is $405 more that than the 1994-95 level that was enacted last August. Appropriations counting toward the 1996-97 guarantee continue to include a $150 million loan repayment pursuant to last year's *CTA v. Gould* Agreement.

K-12 Expenditures

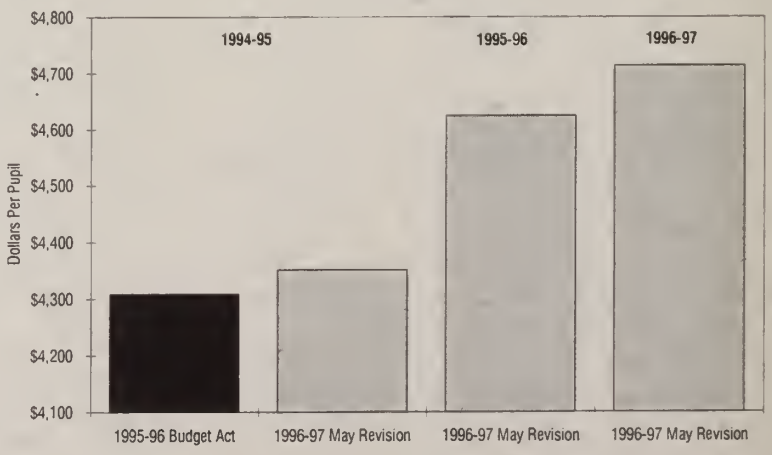
1995-96 $583 million
1996-97 $947 million

The expenditure changes for K-12 Education satisfy the Proposition 98 guarantee for the current and budget years. In addition to the changes based on the updating of revenues, ADA, and local property taxes, the May Revision includes a number of new program expenditures, discussed as follows.

Current Year

The Governor's Budget proposed one-time funding of $768.9 million for various programs to satisfy the revised minimum guarantees for years prior to 1996-97. The May Revision includes an increase of $852.1 million to this "settle-up" amount, including the following significant K-12 changes:

K-12 Funding Per Pupil



- ▲ $51.5 million for one-time deferred maintenance for a total of $100 million. Combined with the ongoing funding level of $40.5 million, the budget fully funds the statutory guideline and allows all hardship applications to be addressed.
- ▲ A $67 million augmentation to the Governor's Reading Inprovement Initiative.
- ▲ A $100 million augmentation to the $100 million for block grants proposed in the Governor's Budget; this $200 million will be allocated on a per-pupil basis.
- ▲ $387 million to provide allocations of $50,000 to each school site for purposes to be determined at each site.
- ▲ A $83.4 million augmentation for instructional materials and library resources. First priority would be to ensure a sufficient supply of textbooks for each student and the remaining funds would be available to expand school library resource materials.
- ▲ $10 million for the California Student Information Systems (CSIS) project.
- ▲ $50 million set-aside as a contingency reserve for reimbursable state mandates.
- ▲ A $5 million augmentation to the Academic Volunteer Mentor program. Total funding available for this program will be $10 million.
- ▲ $10 million for school safety grants.

Reading Improvement Initiative. The Governor's Budget included $100 million in Proposition 98 funds to implement the findings of the California Reading and Math Task Forces. It is anticipated that the State Board of Education will adopt the new English Language Arts instructional materials in October 1996. In recognition of that adoption, and because it is critical to immediately provide the means to improve reading instruction, the Governor has now targeted all funds for reading improvement and has expanded the reading proposal to include more funding for instructional materials and new components using $33.9 million of federal Goals 2000 funds recently approved by the Governor. A $67 million Proposition 98 augmentation proposed in the May Revision will now provide a total effort in excess of $200 million of which $167 million is within the Proposition 98 guarantee. This includes $152 million for instructional materials to provide $80 per pupil for 1.9 million Kindergarten through grade 3 (K-3) pupils for the purpose of purchasing a full set of core reading materials for each student. The balance of the Proposition 98 funds will support related staff development efforts. Of the federal Goals 2000 funds proposed, $26.4 million will support the staff development components of the Initiative; the balance will go for teacher assessments, post-secondary teacher training programs, and the production of reading handbooks for statewide distribution.

$50,000 Per School Site. This program will allocate $50,000 to each school site and bring local decision-making to the grassroots level by allowing each community maximum flexibility to use resources in a manner responsive to the needs of the local school. The proposal also will benefit small schools and small school districts whose costs often are not fully recognized under funding formulas that are based on per-pupil allocations. The school site allocation may be used for any one-time purpose other than employee compensation. These funds will allow individual schools to focus on priorities such as safety, site improvement, or to meet other locally determined critical needs of a one-time nature.

Per Pupil Block Grant. The May Revision proposes to increase the school districts and county offices of education per pupil block grant by an additional $100 million, for a total $200 million, to be used for instructional materials, deferred maintenance, educational technology, school safety, or any other non-recurring costs. Districts and county offices will be required to hold a public hearing to receive community and parental input and advice prior to use of these funds.

School Safety Partnership Grants. In an effort to promote safe schools by supporting comprehensive strategies to prevent crime and violence on or around school grounds, the Administration is proposing $10 million for planning and operational grants. Applicant schools and county offices of education will be required to establish a formal safe schools collaborative consisting of the appropriate representatives from the schools, law enforcement, and the community. The collaborative, in turn, will develop and implement a safe schools crime and violence prevention strategy.

Technical Adjustments

School district and county office of education revenue limit continuous appropriations saw a decline of $42.4 million since the Governor's Budget. This results from lower estimates of ADA and a small decrease in local property tax revenues. A significant change to the school district continuous appropriation since January is due to the $141.2 million transfer of supplemental grant funds from revenue limits to categorical programs.

Budget Year

ADA and local property tax estimates have remained fairly constant since January for school districts. However, the district continuous appropriation saw a reduction of $106.7 million, due primarily to 1995-96 adjustments that carried forward in the apportionment base. County office of education apportionments decreased by $3.4 million due to a decline in estimated ADA.

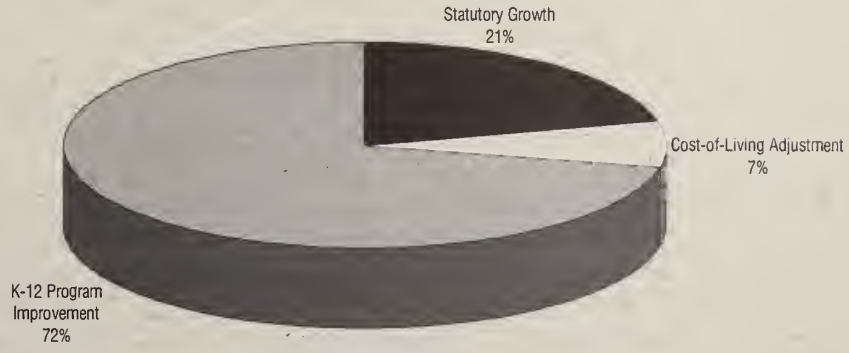
The Governor's Budget included $729.3 million to fund a 3.34-percent cost-of-living adjustment (COLA) for revenue limit apportionments, Special Education, and Child Development. The statutory COLA rate has been revised to 3.21 percent,

and the May Revision reflects a reduction of $28.9 million consistent with the 3.21 percent COLA. This reduction is more than offset by an additional $94.3 million proposed to fully fund a 3.21-percent increase for categorical programs.

For Special Education, formula-driven changes precipitate a net General Fund decrease, excluding the change in the COLA, of $26 million resulting from (1) a decrease of $57,000 in estimated property tax revenues available to offset state funding needed, (2) an increase of $25.5 million in revenue limit funding generated by Special Day Class (SDC) pupils which is available to offset state costs, (3) a decrease of $239,000 in federal funding available to offset state costs, (4) a decrease of $6.9 million General Fund due to a recalculation of base program entitlements and (5) an increase of $6.1 million in General Fund due the most recent projection for growth in ADA for 1996-97.

Excluding the one-time Proposition 98 settle-up appropriations, proposed allocations for 1996-97 would provide an increase to K-12 of approximately $906.9 million over the current year. The statutory COLA adjustment of $65.4 million accounts for 7 percent of the increase. Program improvements for K-12 education totaling $650.6 million account for 72 percent of the change, while statutory growth for pupil attendance requires $190.1 million, or the remaining 21 percent.

K-12 EXPENDITURES
WHAT THE INCREASE BUYS IN 1996-97



The May Revision includes the following significant changes:

- ▲ $459.6 million for a class size reduction program in grades K-3, which offers districts a choice of reducing class sizes in grades 1 and 2 or reducing class sizes in critical areas such as reading and math for grades K-3.
- ▲ $135.7 million to continue the current year block grant for the categorical mega-item.
- ▲ $160.7 million to provide growth and COLA to categorical programs.
- ▲ $147.1 million for school district revenue limit equalization.
- ▲ $13.9 million for county office of education equalization.

- ▲ $30 million for expansion of preschool and child care programs.
- ▲ $9 million reduction to the pupil assessment program to reflect a shift of costs from current year to budget year.

Class Size Reduction. California has the highest student-to-teacher ratio in the country. Because of this, many government leaders, educators and parents believe that students cannot achieve to their full potential. Research shows lower class sizes help achievement; with a modest improvement in the average percentile score for California students, the state's national ranking is expected to show a marked improvement. In addition, class size reduction directly complements the Governor's Reading Improvement Initiative for 1996-97.

Given this, the May Revision includes $459.6 million to fund a program to ultimately reduce class sizes in grades K-3. School districts would have two options. Under the first, they would receive incentive funding of $500 per pupil per grade to implement a class size reduction program. The program would phase in class size reduction over a three-year period with grades 1 and 2 in the first year. Grade 3 and Kindergarten would be included in the second year and third year, respectively, if funds are available. Under the second option, districts would receive incentive funding of $250 per pupil to reduce the student-teacher ratio in reading and mathematics in grades K-3. With the proposed level of funding, schools choosing the second option could implement the program in all of grades K-3 in 1996-97.

Preschool Program and General Child Care Expansion. Increased investment in high-quality preschool programs for children of low-income families is a cornerstone of the Governor's prevention agenda. The Administration proposes a $15 million augmentation to the State Preschool Program and a $15 million augmentation to the General Child Care Program for expansion of services to preschool children. Allowing for lead time to develop provider capacity, these augmentations reflect half-year funding to provide services to approximately 12,000 additional children in State Preschool and approximately 5,400 additional preschool-aged children in General Child Care. This expansion is in addition to the increase initiated in 1995-96 which is already serving an additional 25,000 children in these two programs. These augmentations will provide developmental benefits to preschool children, ensuring their readiness for school, and will assist low-income families in attaining self-sufficiency.

Higher Education

University of California/California State University

The total funding for the University of California and the California State University is consistent with the second-year of the four-year higher education compact as proposed by the Governor in January 1995, and remains basically unchanged from the January budget.

California Community Colleges

1995-96 $65.7 million
1996-97 $103.0 million

Current Year

For 1995-96, the Governor's Budget included $9.4 million to fully backfill the estimated property tax shortfall and another $70 million in one-time funds proposed through legislation to satisfy the revised minimum Proposition 98 guarantee. The May Revision includes an additional $86.9 million in one-time funds, composed of $65.6 million from the 1995-96 guarantee plus an additional $21.3 million in satisfaction of prior years guarantees. This is proposed to fund the following significant changes:

- A $44.4 million augmentation to the full-time equivalent student (FTES)-based block grant for a total of $96.9 million which may be used for deferred maintenance, instructional equipment and library materials replacement, and technology development. This provides about $900,000 to an average-sized community college.

- A $42.5 million increase to deferred maintenance for a total of $60 million for this purpose.

Budget Year

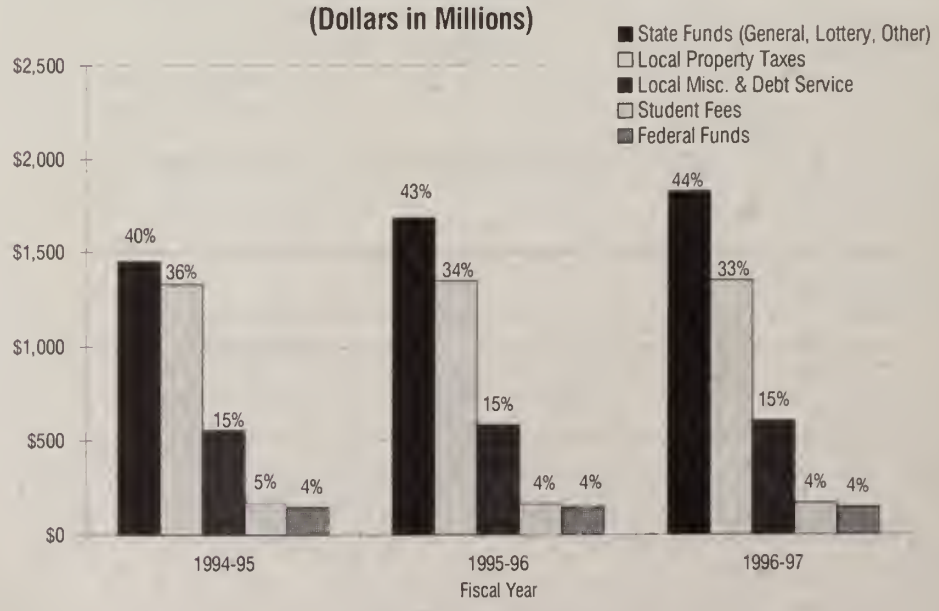
Overall revenues for Community Colleges are estimated at $4.1 billion from all fund sources in 1996-97, a $171.8 million increase over the estimate for 1995-96 (4.4 percent). Absent one-time funding increases from the current year guarantee totaling $135.6 million, ongoing expenditure growth included in the budget is 8.1 percent. Significantly, funds from all state sources increase $140.5 million over the current year level and comprise over 44 percent of total community college revenues.

For 1996-97, the May Revision includes a net increase of $103 million over the Governor's Budget proposal, including the following significant ongoing changes:

- An increase of $65 million for additional growth in general and targeted apportionments which brings the total in the budget to $113 million.
- An increase of $9.1 million to fund 3.96 percent population growth and a 3.06-percent full statutory COLA for categorical programs.
- A $14 million increase for telecommunications and technology infrastructure development, to link all colleges in a wide-area network and with other segments for the improvement of instruction and student services.
- A $15.3 million increase for deferred maintenance, which brings the total proposed in the budget for ongoing needs to $24 million.
- A $15 million increase for replacement of instructional equipment and library materials to establish an ongoing program for high-priority needs.

Targeted Growth. Over the last four years, construction of new centers and other instructional space on existing campuses has provided expanded opportunities for the community college system to meet instructional demand. To help meet this

Revenue for Community Colleges
Source of Revenues
(Dollars in Millions)



need, the May Revision provides an additional $15 million for new off-campus center FTES growth bringing the total proposed to $25 million for this purpose. Also, $40 million is proposed for FTES growth in other new facilities on existing campuses and $10 million is proposed to address the ongoing maintenance and operations cost of all new space. This targeted growth money for underserved areas, when combined with the general growth money proposed in the Governor's Budget, is estimated to fund at least a 40,000 FTES increase over current-year enrollment levels.

Technology Improvement. In order to capitalize on the opportunities for improved instruction brought about by advances in communications technology, it is proposed that a $14 million infrastructure development program be initiated to assist the community college system in fully utilizing this capability. Consistent with the Choosing the Future report, which proposed expansion of technology and distance learning to meet the education needs of the next century, and based on a federally funded grant study which examined the feasibility of linking all of the community colleges in a wide-area network environment, the budget proposes a multi-faceted program to recognize individual colleges' development pace.

Student Aid Commission

1995-96 No change
1996-97 $5.1 million

In 1996-97, Cal Grant General Fund expenditures will increase by $4.9 million. Due to recent reductions in the federal State Student Incentive Grant (SSIG) program, the State will lose $4.9 million in federal funds which are currently used to maintain the Cal Grant program. By compensating for this funding loss with a General Fund augmentation, the State will ensure that the current number of Cal Grant awards, and the proposed award levels (including the increased levels proposed in January) are maintained.

The Administration is proposing that the Student Aid Commission no longer guarantee federally reinsured student loans. The state, through the Student Aid Commission, assumed the loan guarantee function when there were no alternative providers available to assist financially needy California students in obtaining guaranteed loans. However, today there are private guarantee agencies operating successfully in California, the State no longer needs to perform this function. Given the time needed to implement this proposal, it is assumed that there will be no budgetary impact until 1997-98; budget year expenditures are increased by $193,000 (plus $1.9 million from the Guaranteed Loan Reserve Fund) to fund 37 positions for critical workload needs in both the grant and loan programs.

Health and Welfare

The 1996-97 May Revision includes $14.0 billion General Fund for Health and Welfare programs, up $461.6 million from the Governor's January Budget. In January, the Budget assumed enactment of federal welfare reform legislation which would have allowed California to implement a number of policy reforms. While no federal legislation has been enacted to date, the May Revision assumes that the federal government will enact legislation by August 1996 that will provide states with relief from the maintenance-of-effort requirements in current federal law.

The May Revision also assumes a delay in federal funding for emergency health care services provided to illegal immigrants. Federal funding, which had been anticipated in 1995-96, is now assumed to begin in 1996-97 as it is included in the proposed federal budget.

Caseload trends overall in the Health and Welfare areas are generally lower than projected in January, including caseloads in Medi-Cal and social services programs.

Department of Health Services/Medi-Cal

1995-96 $181.0 million
1996-97 $87.6 million

Current Year

The May 1996 Medi-Cal estimate projects total expenditures of $16.5 billion in the current year including $6.2 billion General Fund for benefits and administrative costs. The January Governor's Budget projected a savings of $20.7 million. The May Revision now projects a deficiency of $160.3 million. Estimated eligible caseload is approximately 5.4 million, down by 2.4 percent from the estimate reflected in the Governor's Budget. In addition, $10.6 million is included for capital debt payments to hospitals under the construction renovation reimbursement program.

Though there is a decrease of $36.8 million in the Medi-Cal fee-for-service base estimate, the General Fund will incur a deficiency in 1995-96 primarily due to the $215.6 million shortfall in federal funding. The Governor's Budget assumed that the federal government would appropriate this amount to fund the costs of

emergency health care services to illegal immigrants in 1995-96. The federal budget as enacted did not include funding for these costs. The President's budget, however, does propose funding beginning in 1996-97.

The Governor's Budget had assumed enactment of federal welfare reform legislation which would have prohibited California from providing this benefit or risk losing federal financial participation in other welfare programs. No federal welfare reform legislation was enacted, however, precluding the elimination of the state-only program on March 1, 1996 as anticipated. Consequently, the General Fund deficiency has been increased by $26.0 million to continue providing state-only prenatal care to illegal immigrants. Therefore, the May Revision now assumes enactment of state legislation eliminating these state-only benefits effective January 1, 1997.

Other significant changes affecting the General Fund include: a $22.1 million increase due to delayed implementation of the transitional inpatient care program; a $10.5 million increase related to postponing implementation of changes to the nursing home rate setting methodology; and $24.0 million in savings as the premiums Medicare charges for in-patient and out-patient coverage did not increase.

Budget Year

Total Medi-Cal expenditures for 1996-97 are estimated to be $17.4 billion. The General Fund amounts included in this total are $6.3 billion for traditional Medi-Cal local assistance expenditures and $15.2 million for capital debt payments to hospitals. The average monthly Medi-Cal caseload for 1996-97 is projected to be approximately 5.44 million, a reduction of approximately 200,000 individuals or 3.5 percent from the estimate reflected in the Governor's Budget.

The General Fund estimate has increased by $87.6 million from $6.2 billion to $6.3 billion. The capital debt costs are proposed to increase by $4.5 million from the prior year. It is anticipated that these costs will continue to increase as a number of hospital construction projects near completion.

Although there is a reduction in average monthly caseload, the General Fund total is projected to be $87.6 million higher than the Governor's January Budget, due largely to delays in federal payments for the costs of mandated emergency services to illegal immigrants. As discussed above, the May Revision also includes a $34.7 million increase to provide prenatal care to illegal immigrants through December 31, 1996.

Other significant General Fund issues include: an additional $12.8 million due to a longer than anticipated phase-in of the transitional inpatient care program, and $29.9 million to provide rate increases to long-term facilities based on an annual rate study conducted by the Department of Health Services. Further, the May

Revision continues to reflect the compromise agreement contained in a federal court order which maintained rates for dental procedures at their 1995-96 level and suspended cost-of-living-adjustments.

Department of Health Services/Public Health

1995-96 -$53.2 million
1996-97 -$14.4 million

Current Year

Higher revenues and lower caseload costs make sufficient Proposition 99 reserves available to support a comprehensive 2-year plan to address the increase in use of tobacco, particularly among young people, and to augment health services for low-income, uninsured Californians. For the current year, the May Revision includes $33.6 million from the Physician Services, Hospital Services and Unallocated accounts to fund caseload costs in the Child Health and Disability Prevention (CHDP) and Genetically Handicapped Persons Program (GHPP) programs, and to support CHDP child lead screening costs which are now funded by the Childhood Lead Poisoning Prevention Fund.

Caseload Programs

Total Child Health and Disability Prevention caseload is 0.7 percent higher than the January estimate. General Fund caseload has decreased by approximately 14,700 health screens, with lower average costs per screen, for a net caseload cost reduction of $1.6 million. Costs of $29.3 million will be funded from Proposition 99 reserves.

Total California Children's Services Program caseload has decreased by approximately 6,500 cases or 4.7 percent. Reduced caseload and treatment costs will result in General Fund savings of $11.6 million.

Total Genetically Handicapped Persons Program caseload will decrease by 2.4 percent. Reduced caseload and treatment costs will result in General Fund savings of $3.6 million. Costs of $4.3 million will be funded from Proposition 99 reserves.

Budget Year

The May Revision proposes allocation of Proposition 99 revenues to expanded prevention programs, including:

- ▲ $32.7 million to expand the media campaign and community and school-based tobacco use prevention programs,
- ▲ $38.9 million for applied research on tobacco use with an emphasis on reducing use by young people,
- ▲ $25.3 million allocated among those currently funded programs which provide health services to low-income, uninsured Californians,
- ▲ $5 million for rural health improvement grants, and
- ▲ $10.7 million to maintain child lead screens and case management services in the Childhood Lead Poisoning Prevention program.

AIDS Drug Assistance Program (ADAP)

The cost to maintain drug treatment for low-income, uninsured Californians with AIDS will increase by an estimated $17.9 million in the budget year due to increased drug prices, the use of combination drug therapy, an increase in the number of ADAP clients, and the cost of adding four new drugs to the ADAP formulary. These costs will be supported by a comprehensive funding plan including $5 million General Fund, $8 million additional federal Ryan White CARE Act Title II grant funds provided specifically for additional drug costs, $3.5 million in mandatory drug manufacturer rebates, and $1.4 million from local consortia Title II contributions.

Partnership for Responsible Parenting Initiative

The May Revision maintains the Administration's commitment to the Responsible Parenting Initiative. The $10 million proposed for expanding the multi-media campaign, however, will be reduced by $4 million and replaced by a reappropriation of the same amount from current year funds which are available due to unavoidable delays in the contract award process. The significant response to the Department of Health Services' request for proposals for the current intervention project funds indicates that the $34 million for challenge grants can be used effectively as an augmentation to the existing teen pregnancy prevention program, making a new foundation unnecessary. The $1 million proposed for developing new curricula is eliminated, since this need will be met within the revised challenge grant program.

Caseload Programs

The Child Health and Disability Prevention Program caseload estimate is 0.3 percent higher than the Governor's January Budget, but General Fund caseload has decreased by approximately 12,500 screens, with lower average costs per screen, for a net reduction of $2.4 million.

Total Genetically Handicapped Persons Program caseload is estimated to decrease by 2.8 percent. Lower caseload and treatment costs will reduce General Fund costs by $5.1 million.

California Children's Services caseload is estimated to reach approximately 135,400 cases, a 3.7-percent decrease from the Governor's January Budget. It is projected that total costs will fall below the maintenance-of-effort level required to use Proposition 99 funding support in this program. Thus, the $5 million Physician's Services Account funding has been removed from this program. Additionally, caseload decreases are such that an additional $8.4 million General Fund savings will occur.

Small Public Water Systems

An increase of $2 million General Fund is proposed to fully fund statutory inspection requirements of small public water systems. The fees set by statute for these smaller community systems are currently insufficient to cover program inspection costs.

Vital Record Improvement Project Extension

The May Revision proposal includes $1.2 million from the fee-supported Health Statistics Special Fund to sustain and enhance the state's vital record automation capabilities. This proposal is contingent upon the enactment of trailer bill legislation to extend the current January 1, 1997 sunset date of the existing Vital Record Improvement Project surcharge for two years.

Department of Developmental Services

1995-96 No Change
1996-97 $0.7 million

In the budget year, regional center costs will decrease from the Governor's Budget by $0.5 million due to lower caseload and expenditure trends. Funding for the developmental centers is projected to increase by approximately $0.5 million to serve 46 more clients than was reflected in the Governor's January Budget. The total population, however, is still projected to decline to 3,857 clients by the end of 1996-97.

As a result of the continuing population declines at the developmental centers, Stockton Developmental Center was closed in February of 1996. Camarillo State Hospital and Developmental Center will close at the end of 1996-97. Of the 490 persons with developmental disabilities currently at Camarillo, approximately 410 will move to other developmental centers and approximately 80 will move into the community; placement decisions will be based on individual program plans.

The closure of Camarillo will result in a General Fund cost of $1.1 million in the 1996-97 budget, but ultimately will save millions of dollars in overhead costs. The Administration is forming a task force, led by local legislators and the California State and Consumer Services Agency, to determine the best use of the facility. The task force will work with local government agencies and private sector groups to examine future uses that reflect local preferences and community needs.

Resident Transfer Upgrades—Porterville

1995-96 No Change
1996-97 $2.0 million

The closure of Camarillo will result in the relocation of forensics patients to the Porterville Developmental Center. Currently, Porterville does not serve this patient population, which requires a higher level of security. Consequently, security fencing around certain existing buildings, a personal alarm system, and other upgrades are needed.

Department of Mental Health

1995-96 -$10.7 million
1996-97 -$0.1 million

In the current and budget years, the growth rate in judicial and penal code commitments to the state hospitals will decline from the dramatic growth experienced in 1994-95. For 1996-97, the Governor's January Budget identified need for an additional 235 beds, whereas revised projections indicate a need of only 40 beds. The May Revision proposes to delete funding for 195 beds for General Fund savings of $10.4 million in the budget year.

Due to the projected decrease in the judicial and penal code commitments, there also is a reduced need for additional security at Metropolitan State Hospital. The Governor's January Budget identified the need for 53 peace officer positions to secure the facility. The May Revision proposes to reduce this number to 34 positions for a General Fund savings of $772,000 in the budget year.

In 1995-96, the Department of Mental Health became responsible for treating Sexually Violent Predator (SVP) civil commitments. The Governor's January Budget identified the need for 30 beds at Atascadero State Hospital and 210 beds at an undetermined treatment facility. The revised projections indicate a need for only 138 SVP beds. This results in a savings of $9.8 million in the budget year. The SVP population will be housed at Atascadero State Hospital, which already has the appropriate security needed to house this population.

The closure of Camarillo will result in a General Fund cost of $682,000 in the budget year for staff training, client transportation and minor capital outlay. Mentally disabled clients residing at Camarillo can be accommodated at Napa State Hospital and Metropolitan State Hospital or in community settings. Placement decisions will be based on individualized treatment plans. (See related issue in the Department of Developmental Services.)

Funding for mental health managed care will increase by $3.0 million. This augmentation reflects a net increase in eligibles due to a transfer of prepaid health plan enrollees from the Department of Health Services.

The Commission on State Mandates 1996 claims bill, SB 91, will include $18.6 million to fully reimburse local agencies for approved claims for services provided in 1986-87 through 1993-94 related to the Chapter 1747, Statutes of 1984 Handicapped and Disabled Children mandate program.

Perimeter Fence—Metropolitan

1995-96 No Change
1996-97 -$1.1 million

In the budget year, $3 million is proposed for security fencing at Metropolitan State Hospital to allow for housing of judicially committed and penal code patients. Based upon the revised population estimates for these patients, fewer buildings at the hospital will require security fencing. The revised scope of the project will result in a General Fund savings of $1.1 million.

Department of Alcohol and Drug Programs

1995-96 No Change
1996-97 No Change

In the budget year, a new rate structure is proposed for the Drug Medi-Cal program to reflect the higher costs of providing enhanced services to perinatal clients and providing group outpatient drug free services. Language is proposed to ensure ongoing cost containment for the Drug Medi-Cal program: if projected General Fund expenditures for 1996-97 exceed $50 million, then outpatient drug free services will be eliminated in 1997-98.

The May Revision also reflects a decrease of $3.6 million in federal funds for non-perinatal Drug Medi-Cal services. Budget bill language is proposed to allow the transfer of funds between items to ensure that the perinatal program is maintained at a minimum level of $25 million.

Department of Rehabilitation

1995-96 No Change
1996-97 -$4.7 million

In the budget year, expenditures are estimated to decrease by a net of $4.7 million, reflecting three changes. First, the caseload for the Habilitation Program is projected to decrease by 569 clients providing a General Fund savings of $4.0 million. Second, the number of clients in the Vocational Rehabilitation Work Activity/Supported Employment Program is estimated to increase by 464, resulting

in a General Fund cost of $1.0 million. Third, at the current rate of attrition, the Vocational Rehabilitation/Day Treatment Activity Center Program is estimated to close by April 1, 1997. The reduction in clients results in a savings of $1.7 million General Fund and a reduction of 21 personnel years.

Department of Social Services

1995-96 $264.7 million
1996-97 $386.6 million

Welfare Reform

The 1996-97 Governor's January Budget assumed the enactment of federal welfare reform and implementation of federal block grants on March 1, 1996. The May Revision assumes enactment of federal legislation in August which will allow California and other states to reduce grant levels below federally required maintenance-of-effort (MOE) payment levels authorized in 1988 for Aid to Families with Dependent Children (AFDC) and 1983 for Supplemental Security Income/State Supplemental Payment (SSI/SSP). The impact on the state is an increase in General Fund costs of $602.8 million. The accompanying table displays the current and budget year impacts of federal MOE relief legislation being enacted by August of 1996 and no enactment of federal welfare reform.

Department of Social Services
Welfare Reform Policy Issues
(Dollars in Millions)

	Net Lost Savings 1995-96	1996-97
Waiver Delay for 2.3 Percent Grant Reduction	$19.3	$1.1
AFDC Grant Reduction Exemptions	1.1	4.2
Grant Reduction Exemptions Administration	-3.2	5.9
Regionalized AFDC Grants	19.7	15.8
4.9 Percent AFDC Grant Reduction	43.3	34.1
4.5 Percent AFDC Grant Reduction	0.0	27.8
Teen Pregnancy Disincentive	-1.4	-3.5
Barring Sponsored Immigrants from AFDC	0.0	28.4
Maximum Family Grant	0.0	4.2
Welfare Block Grant Funding	82.0	299.0
Regionalized SSI/SSP Grants	24.9	31.7
4.9 Percent SSI/SSP Grant Reduction	76.2	101.3
Elimination of SSI/SSP Eligibility for Noncitizens	0.6	95.8
Reforms in Children's SSI/SSP Eligibility Criteria	0.0	5.6
Child Protection Block Grant	4.6	-31.6
Reallocation of Payment of Collected Back Child Support Payments	0.0	-17.0
TOTAL	**$267.1**	**$602.8**

The May Revision assumes federal MOE relief will be enacted in August 1996 allowing grant reductions effective October 1, 1996 for AFDC and November 1, 1996 for SSI/SSP. These grant reductions reduce expenditures by $496.9 million in 1996-97.

Aid to Families with Dependent Children (AFDC)

For 1995-96, the number of families receiving AFDC is expected to decrease 1.6 percent below last year's caseload levels. In 1996-97, a decrease of 0.2 percent in the AFDC caseload is expected below 1995-96 levels. The budget year caseload decline is the result of a decrease in the AFDC-Unemployed caseload of 1.3 percent, while the AFDC-Family Group caseload is expected to remain constant. These caseload reductions result in savings of $27.9 million in 1995-96 and $34.5 million in 1996-97.

Other significant AFDC changes in 1996-97, excluding welfare reform impacts, include savings of $4.2 million resulting from increased recoveries of overpayments to welfare recipients and a loss of anticipated savings of $5.6 million resulting from the delay in implementing the Statewide Fingerprint Imaging System.

Program Changes:

Elimination of the State-only AFDC Pregnancy Benefits Program. The federal government participates in providing an AFDC grant to pregnant women with no other children starting in the woman's third trimester of pregnancy. Currently, the state supplements this program by providing cash assistance, with no federal participation, during the first two trimesters of pregnancy. This proposal would make California law consistent with federal participation by eliminating benefits in the first two trimesters. The woman, however, would remain eligible for Medi-Cal services. Elimination of this state-only program results in savings of $14.7 million.

AFDC Truancy Initiative. In order to improve school attendance among children receiving AFDC and possibly break the welfare dependency cycle, AFDC parents, as a condition of eligibility, will be required to assure that their children are attending school regularly. School districts will send copies of truancy notices for all school children to county welfare departments. County welfare departments will then reduce the level of the family's AFDC grant for those children who fail to attend school without good cause. This will serve as an encouragement for AFDC children to remain in school, stressing the importance of education for future success. This statewide proposal will require a federal waiver. Welfare costs are estimated to be $336,000 and school district costs approximately $1 million of Proposition 98 funding. These costs will be partially offset by AFDC grant savings of $482,000.

Increased savings in AFDC also will occur as a result of child support collection programs in both the current and budget years. In the current year, the most notable savings is an estimated increase of $5.9 million General Fund in support payment collections from the non-custodial parents of children receiving AFDC. The increase is primarily due to the Franchise Tax Board (FTB) Intercept program. In the budget year, AFDC General Fund child support collections are expected to increase by $21.3 million over the previous estimate.

County Administration. The General Fund costs of administering county welfare programs are expected to decrease by $4.2 million in 1995-96, due primarily to administrative savings of $3.2 million from the delayed implementation of exemptions to prior year AFDC grant reductions. In 1996-97, General Fund county administrative costs are estimated to decrease by $21.7 million, due primarily to caseload declines and counties' inability to match to the level of funding proposed in the Governor's Budget and reduced expenditures for overpayment recoveries of $2.2 million. These savings are offset by increased costs of $5.9 million associated with administering grant reduction exemptions.

Automation Projects. The federally required Statewide Automated Child Support System (SACSS) received enhanced federal funding at a rate of 90 percent federal funds for development and implementation until October 1, 1995. Enhanced funding would have been continued in welfare reform legislation; however, the legislation was not enacted. To date, no federal legislation to restore this funding retroactively has been enacted. This results in a 1995-96 loss of $10 million in federal funds for both the State and counties and $15.2 million in the budget year. The budget now assumes this loss of federal funding will become a General Fund cost in both the current and budget years. However, if the enhanced funding is restored retroactively through subsequent federal legislation, these funds will be used to reimburse the General Fund.

The proposed current year implementation of the Statewide Fingerprint Imaging System (SFIS) has been delayed until 1997-98. While the Governor's Budget originally anticipated savings from this fraud detection and prevention system to begin in 1996-97, the savings were based on implementation activities in the counties starting in 1995-96. Instead, the delays in implementing SFIS will result in savings beginning to accrue in 1997-98.

Children's Programs

Foster Care

The May Revision reflects current year costs $2.0 million below the amount estimated in the Governor's Budget and increased costs of $4.9 million in 1996-97. The May Revision reflects increased General Fund costs resulting from a federal policy change which eliminated federal Emergency Assistance Funding for foster

care costs for children whose removal from their home is due solely to delinquent behavior ($5.5 million in 1995-96 and $10.1 million in 1996-97). Increased costs also will be incurred as a result of settlement of a class action lawsuit challenging the collection of overpayments that were assessed against foster family homes by county welfare departments ($3.3 million). Increased costs, however, are offset somewhat by lower average grant costs ($5.6 million in 1995-96 and $6.0 million in 1996-97).

Child Welfare Services

The May Revision reflects a cost increase of $1.6 million in 1995-96 and a reduction of $35.5 million in 1996-97. The Governor's Budget included current year General Fund savings of $4.6 million and budget year costs of $31.5 million due to anticipated federal Welfare Reform legislation which would have transferred federal funding for child welfare services to states under a block grant. The May Revision assumes federal funding for child welfare services will continue at the current level.

Additionally, the May Revision reflects reduced costs resulting from the anticipated delay in implementing the Teen Pregnancy Disincentive ($1.2 million in 1995-96 and $1.3 million in 1996-97). Current year savings also have occurred in the Options for Recovery demonstration program ($1.7 million) as a few counties have not been able to match state and federal funds due to fiscal constraints. This program is a pilot project through which specially trained foster families provide care for infants born with AIDS or exposure to drugs. The May Revision also reflects a budget year reduction of $3 million due to a decrease in costs for county administration.

Adult Programs

Supplemental Security Income/State Supplemental Payment (SSI/SSP) Program

SSI/SSP expenditures are higher than the level reflected in the Governor's January Budget by $98.0 million in the current year and $72.4 million in the budget year. The Governor's Budget anticipated passage of federal welfare reform legislation which would have reduced the SSI/SSP caseload and permitted reductions in grant levels effective April 1, 1996. Without enactment of this legislation, projected current year savings from proposed grant level reductions and the requirement to deny eligibility to non-citizens did not materialize ($101.7 million). The May Revision anticipates enactment of federal legislation in August 1996 which will provide California relief from the SSI/SSP federal maintenance-of-effort requirements. This change will result in reduced savings of $234.4million in 1996-97.

Minor current year savings ($4.6 million) result from a decline in caseload growth from the 2.7 percent anticipated in the Governor's January Budget to 2.0 percent and a decline in the average SSP grant levels for aged, blind, and disabled recipients. The May Revision estimates budget year savings from the elimination of drug and alcohol addiction as a basis for eligibility ($3.2 million) and a decrease in the average SSP grant for aged, blind and disabled recipients ($12.9 million).

The May Revision reflects two policy reductions in the SSI/SSP Program: a 3.4 percent grant reduction ($147.5 million), and elimination of the SSI/SSP Restaurant Meals Allowance category. The grant reduction will decrease grants for aged/disabled individuals from $596 to $576 in Region 1. In Region 2, the grant levels will change from $568 to $548. Aged/Disabled couples grant levels will decrease from $1,066 to $1,030 in Region 1. In Region 2 the couples grant levels will change from $1,014 to $980. After these reductions are implemented, California will still have the highest payment standards for individuals (Region 1 only) and couples among the ten most populous states. The individual payment standard in Region 2 will rank second among the ten most populous states.

In-Home Supportive Services (IHSS)

Current year expenditures are $37.9 million above the level reflected in the Governor's January Budget to reflect the loss of federal Title XX funds. An additional $37.9 million in General Fund has been included in the May Revision in order to maintain the current level of services.

Department of Corrections

Population/Caseload Adjustments

1995-96 -$29.9 million
1996-97 -$57.8 million

Current Year

Based on the Department of Corrections (CDC) spring estimates and recent population trends, the May Revision reflects a June 30, 1996 population of 142,237 inmates. This is 4,153 fewer inmates than reflected in the Governor's Budget. However, it represents an increase of 10,895 inmates (8.3 percent) over the June 30, 1995 population level. The projected year-end parolee population is 97,589. This is 4,659 more than the January budget and an increase of 6,133 (6.7 percent) over June 30, 1995. The net affect of these changes is a savings of $29.9 million.

Budget Year

The CDC's spring estimates combined with recent population trends reflect a June 30, 1997 population of 157,751 inmates. This is 5,944 fewer than anticipated in January, but still an increase of 15,514 inmates (10.9 percent) over the revised June 30, 1996 population level noted above. The projected year-end parolee population is 100,219. This is 5,695 more than anticipated in January and an increase of 2,630 (2.7 percent) parolees over the revised population trend estimated for June 30, 1996. These adjustments result in a net savings of $57.8 million.

In addition to the traditional population adjustments noted above, the following program adjustments are proposed:

Sexually Violent Predator (SVP) Program

1995-96 -$3.0 million
1996-97 -$6.9 million

Based on experience to date, the May Revision reflects amended workload and related staffing projections to implement Chapter 763, Statutes of 1995. In addition, it reflects the elimination of perimeter security and lease bed costs for a 210-bed facility proposed in the January budget. This facility is no longer needed due to a decline in the number of individuals who are expected to receive civil commitment by the courts to the Department of Mental Health (DMH) and a decline in the projected state mental health hospital population. Therefore, DMH intends to house these individuals at Atascadero State Hospital.

Parole Absconder Pilot Project

1995-96 No Change
1996-97 $3.1 million

The Department of Corrections has a fundamental responsibility to maintain supervision of parolees upon release from state prison. Historically, the department has not been provided funding for the active apprehension of parolees who fail to report to their parole agents. The May Revision proposes $3.1 million, General Fund, to CDC for the purpose of implementing a pilot program focused on apprehending serious and violent parolees-at-large.

Local Assistance

1995-96 $7.9 million
1996-97 No Change

An increase of $7.9 million has been provided in the current year to allow CDC to cover the cost of maintaining parole violators in local jails pending parole revocation hearings. Because a program and fiscal review regarding medical costs is scheduled to be conducted, no augmentation has been provided for the budget year.

Restoration of Contract Medical Funding

1995-96 $7.0 million
1996-97 $7.0 million

CDC has been provided $7 million to partially restore an $8 million reduction by the Legislature during deliberations regarding the 1995-96 Budget Bill in anticipation of savings to be achieved in the contract medical area. Language added at the time stated the intent that CDC utilize the California Medical Assistance Commission (CMAC) to negotiate contracts for medical services in order to achieve the aforementioned savings. Since CMAC has not participated in the negotiation of any medical contracts resulting in additional savings beyond the efforts accomplished by CDC, these funds have been restored.

Correctional Management Information System (CMIS)

1995-96 -$5.9 million
1996-97 -$2.0 million

Contractor delays in this project have resulted in an estimated seven-month delay in Phase I of this project. Consequently, the May Revision reflects an appropriate adjustment based on available information to date.

Lease Payment Savings

1995-96 No Change
1996-97 -$9.5 million

CDC's most recent Lease Payment Revenue Surplus Report reflects an additional savings of $9.5 million General Fund in the budget year due to resolution of claim exposure disputes and increased interest earnings.

Planning for New Prison Construction

1995-96 No Change
1996-97 $25.4 million

In order to meet critical timelines for inmate bed activation, $25.4 million is requested to fund planning for the construction of six new prisons as proposed in the Administration's public safety general obligation bond measure ("Three Strikes" Violent and Career Criminal Detention Bond Act of 1996). This will allow the department to proceed with planning and predesign while awaiting voter approval of the measure in November 1996.

Department of the Youth Authority

Population Adjustments

1995-96 -$1.9 million
1996-97 -$3.6 million

The May Revision estimate of June 30, 1996 institutions population is 10,075, which is 385 wards fewer than anticipated in the Governor's Budget, resulting in a General Fund savings of $2.0 million ($1.44 million General Fund and $558,000 Proposition 98-General Fund). The June 30, 1996 parole population is estimated to be 6,145, or 175 cases more than the 5,970 included in the Governor's Budget, resulting in increased costs of $79,000, General Fund. The net effect of these changes is a General Fund reduction of $1.9 million.

The June 30, 1997 institutions population is projected to be 10,180 which is 305 wards fewer than anticipated in the Governor's Budget. This population decline results in General Fund savings of $3.6 million ($2.43 million General Fund and $1.17 million Proposition 98-General Fund). The June 30, 1997 parole population is estimated to be 6,350, or 125 cases more than the 6,225 included in the Governor's Budget. The net effect of these changes is a General Fund reduction of $3.6 million.

Sliding Scale and Commitment Fee Increase

1995-96 $7.5 million
1996-97 $27.8 million

The Governor's Budget was predicated on the enactment of legislation which would increase the monthly fees collected by the Youth Authority from counties and impose an additional fee for less serious offenders. The presumed effective date was February 1, 1996. As enacted, the legislation, Chapter 6, Statutes of 1996 (SB 681), does not become effective until January 1, 1997. As a result of this change in the anticipated implementation date, the Youth Authority will not be able to collect the level of reimbursements assumed in the Governor's Budget and requires increased General Fund support in the absence of such reimbursements. Therefore, the Youth Authority's General Fund support has been increased by $7.5 million in the current year and $27.8 million in the budget year.

Department of Justice

1995-96 No Change
1996-97 $5.1 million

The May Revision proposes a net increase to the Department of Justice budget of $5.1 million as a result of a decrease in correctional law workload and a temporary increase in federal habeas corpus filings.

The Department of Justice is responsible for representing the State in all civil suits filed by all inmates and parolees of the California Department of Corrections (CDC). The number of civil suits filed is closely related to the average daily population (ADP) of inmates in the CDC. The May Revision anticipates a decrease in the ADP from the January Governor's Budget, which results in a reduction of $277,000 General Fund and 3.5 positions in the Department of Justice's Correctional Law Section.

The Department of Justice is also responsible for representing the State in federal habeas corpus litigation filed by criminal felons. The Anti-Terrorism/Habeas Corpus Reform Bill became law on April 24, 1996, and makes two major changes with regard to criminal felons who seek federal habeas corpus relief. First, the law limits the number of filings to one. Currently, a felon may file as often as he or she wishes. Second, it creates a statute of limitations for convicted felons to seek federal habeas corpus relief. For capital cases, this new law requires a defendant to file his or her federal habeas corpus petition within 180 days after completion of state proceedings. For non-capital cases, the new law requires defendants to file his or her federal habeas corpus petition within one year after completion of state proceedings.

As convicted felons respond to these new deadlines in their attempt to secure a new trial or release, the Department projects a significant increase in these filings over the next two years. Consequently, an additional 61.4 positions and $5,388,000 from the General Fund are proposed to address this workload.

Riverside and Central Valley Laboratory Replacement

1995-96 No Change
1996-97 $0.9 million

The Department of Justice has demonstrated a critical need to replace two criminalistic laboratories in the budget year. To meet critical timelines for replacing criminalistic laboratories in the Central Valley area and in Riverside, $877,000 is requested to fund a facilities programming study, preliminary plans and required environmental documents. This will allow the Department to begin the site search and start preliminary plans for the replacement laboratories.

Department of Forestry and Fire Protection (CDF)

Emergency Fire Suppression

1995-96 $36.4 million
1996-97 No Change

Based on actual costs incurred for emergency fire suppression to date, as well as estimates on outstanding bills ($48 million) and prospective 1996 fire season estimates ($10 million); CDF projects total emergency fire suppression costs to be $58 million. Of that amount, $1.6 million will be funded from federal funds. Of the remaining $56.4 million, $20 million will be funded from the CDF's Emergency Fund Budget Act appropriation, $10 million from Section 12.30 (c) of the 1995 Budget Act and $26.4 million from legislation (AB 1565).

Department of Toxic Substances Control

Clandestine Drug Lab Cleanup Workload Growth

1995-96 $0.9 million
1996-97 $1.5 million

Chapter 55, Statutes of 1994 transferred the responsibility for cleaning up illegal drug laboratories from the Department of Justice and local enforcement agencies to the Department of Toxic Substances Control (Toxics). Toxics' 1996-97 base budget for cleanup work is $2.7 million (Hazardous Waste Control Account). The Governor's Budget added another $1.6 million (General Fund) for anticipated workload growth. Based on recent monthly trends in actual cleanup workload, an additional $1.5 million General Fund will be necessary. The burgeoning workload growth in the current year resulted in the approval of a $905,000 General Fund deficiency.

Department of Information Technology

1995-96 No Change
1996-97 $1.5 million

The Department of Information Technology was created pursuant to Chapter 508, Statutes of 1995 (SB1), effective January 1, 1996. The initial budget for the department authorized 15 positions to carry out the SB 1 mandate that it promote the effective application of information technology. An augmentation of $1.5 million and 5.0 positions is requested to ensure that the department has adequate resources to perform oversight and planning activities and conduct special projects. This amount includes $1.0 million in contractual services for projects and studies (such as the creation of a statewide E-mail system), for assistance in developing various statewide policies, and for the review of potential consolidation of the state's data centers.

Office of Emergency Services (OES)

Interim Headquarters Facility

1995-96 No Change
1996-97 $2.2 million

The May Revision includes $2.2 million to provide for relocation of the OES headquarters to an interim facility. This relocation will provide critical space needs during the three- to four-year period necessary to complete a build-to-suit facility that meets the requirements of the Essential Services Building Seismic Safety Act of 1986. The Governor's Budget included $4.2 million for 1996-97 to fund site acquisition and preliminary plans for the permanent facility.

Disaster Recovery Costs

1995-96 -$11.6 million
1996-97 -$8.1 million

The amount appropriated in 1995-96 for payment of the state's share of disaster response and recovery costs incurred by public agencies for disasters other than the Loma Prieta or Northridge earthquakes is $35 million. Based on the latest estimate of claims processed and approved for payment, expenditures for 1995-96 are estimated to be $11.6 million less than anticipated.

The amount proposed in the Governor's Budget for the state's share of local public agencies' costs for past disasters is $67.3 million, including $31.3 million for the Northridge earthquake and $1 million for the Loma Prieta earthquake. Based on the latest estimate of claims processed and approved for payment, the May Revision proposes a reduction of $5 million for disasters other than the Northridge and Loma Prieta earthquakes. The funding proposed for the Northridge earthquake is proposed to be reduced by $2.1 million due to delays in the settlement of claims for four large hospital projects. Additionally, the $1 million General Fund in the Governor's Budget for payment of Loma Prieta claims in 1996-97 is no longer needed. Disaster Relief Fund (quarter-cent sales tax fund) resources are now projected to be sufficient for 1996-97 costs.

Office of Criminal Justice Planning

Hospital-based training centers for evidentiary examinations

1995-96 No Change
1996-97 $0.7 million

Chapter 860, Statutes of 1995 (SB 857) requires the establishment of two hospital-based training centers over a two-year period (the first to be established in 1996-97 and the second to be established in 1997-98). These centers will provide training to medical, law enforcement, and court personnel on the documentation and interpretation of evidentiary medical examinations involving cases of sexual assault, spousal abuse and elderly abuse. Increased local assistance in the amount of $700,000 General Fund is proposed for the first of these training centers.

Victim-Witness Assistance Fund Shortfall

1995-96 $0.8 million
1996-97 No Change

Based on the May Revision revenue projections, revenues to the Victim-Witness Assistance Fund (VWAF), which receives its revenues primarily from the Penalty Assessment Fund, are projected to fall short of budgeted expenditure authority by $1.28 million in the current year. The May Revision reflects a need for an additional $782,000 in addition to the $500,000 previously estimated to be needed.

The 1996-97 impact of this revenue shortfall is addressed below under Penalty Assessment Fund.

Penalty Assessment Fund

For the 1996-97 fiscal year, revenues to the Victim-Witness Assistance Fund (VWAF) are estimated to fall short of the proposed expenditure authority by approximately $1.3 million. In addition, Peace Officers' Training Fund (POTF) revenues are also anticipated to fall short of the proposed expenditure authority (for 1995-96 and 1996-97) by approximately $4 million. The VWAF, the Restitution Fund (Board of Control Victims of Crime Program) and the POTF all receive revenues from the Penalty Assessment Fund. While Penalty Assessment revenues have been less than anticipated, the condition of the Restitution Fund has improved due to the Board of Control's implementation of various cost-containment and revenue-enhancing measures. In order to take advantage of the improved fiscal condition of the Restitution Fund, address the shortfall in VWAF and POTF, and provide for a transfer to the General Fund, the following is proposed for 1996-97 only:

- Increase the Budget Act Control Section 24.10 allocation to the VWAF from 14.72 percent to 18.89 percent, which would increase revenues to VWAF by $1.3 million;
- Provide an allocation from Control Section 24.10 of 12.92 percent to the POTF, which would increase revenues by $4.066 million;
- Decrease the Control Section 24.10 allocation to the Restitution Fund from 85.28 percent to 22.50 percent, and;
- Transfer the remaining balance (approximately $14.4 million) to the General Fund.

The transfer of $14.4 million to the General Fund would leave adequate revenues in the Restitution Fund to fully fund the Board of Control Victims of Crime Program, and ensure adequate revenues to fully fund the proposed expenditure authority from VWAF and POTF.

Tax Relief

Homeowners' Property Tax Relief Program

1995-96 $4.5 million
1996-97 $4.5 million

The California Constitution exempts homeowners from paying property taxes on the first $7,000 of the assessed value of their principal place of residence. The Constitution requires the state to reimburse revenues lost due to this exemption.

For the current year, the State Controller indicates that the county claims for the Homeowners' Property Tax Relief Program will total $393.3 million; $4.5 million higher than the $388.8 million General Fund in the Budget Act. This means an additional 60,000 homeowers are claiming this benefit in the current year. The $4.5 million General Fund difference is proposed for the current year deficiency bill. The May Revision proposes an additional $4.5 million to the Governor's Budget amount of $392.7 million for the Homeowners' Property Tax Relief Program, for a total of $397.2 million in 1996-97.

General Obligation Bond Debt Service

1995-96 -$3.9 million
1996-97 $15.3 million

The proposed 1996-97 Governor's Budget anticipated current year General Obligation (G.O.) bonded debt service expenditures of approximately $1.951 billion and budget year expenditures of approximately $1.959 billion.

Due to a revision in the State Treasurer's Sales Plan, including the two bond measures approved in March 1996, current year expenditures are estimated to decrease $3.9 million and budget year expenditures are estimated to increase by $15.3 million. The net effect over the two years is an increase of $11.4 million.

Payment of Interest on General Fund Loans

1995-96 -$124.7 million
1996-97 -$108.0 million

For 1995-96, the Governor's Budget reflected $75.0 million for interest on internal borrowing. Based on actual disbursements and anticipated expenditures through the end of the fiscal year, interest costs are now estimated to be approximately $10.0 million, or a savings of $65.0 million. Interest costs on external borrowing were estimated to be $220.6 million. Based upon the actual interest rates attained on the notes, interest costs are now estimated to be $188.7 million, or a savings of $31.9 million. Expenditures will be offset by an additional $27.8 million technical adjustment to account for the premium received on the 22-month Revenue Anticipation Warrant sold in July 1994 and accounted by the State Controller's Office as a minus expenditure in 1995-96. The $27.8 million is not a gain to the General Fund, since the beginning balance was already adjusted in the January Governor's Budget.

For 1996-97, the Governor's Budget reflected $75.0 million for interest on internal borrowing. Based on anticipated expenditures, interest costs are now estimated to be approximately $20.0 million, or a savings of $55.0 million. The Budget also estimated the sale of a Revenue Anticipation Note (RAN) in the amount of $3.2 billion in July 1996, with an interest rate of 5.625 percent. This equates to an interest cost of $180.0 million. Based on current market conditions, the RAN is now anticipated to be $3.0 billion at 4.25 percent interest. This would result in a savings of $53.0 million in the budget year.

Trial Courts

1995-96 No Change
1996-97 $25 million

Because of increased workload and critical needs of the courts, the May Revision proposes to continue the restoration of $25 million provided to the trial courts in 1995-96 through Chapter 42, Statutes of 1996. These additional resources will allow the courts to adjudicate criminal trials in a timely manner. Failure to adjudicate criminal trials could jeopardize public safety.

The May Revision reflects several actions that further implement the Governor's *California Competes* initiative to make state government more competitive.

California Energy Commission

1995-96 No Change
1996-97 -$0.3 million ERPA

The Energy Commission will eliminate the following programs or activities: (1) Office of Public Advisor, (2) curriculum development, (3) window thermal efficiency rating, (4) pilot program promoting use of energy-efficient mortgages, (5) community college energy initiative, (6) appliance standard development, (7) appliance directories, (8) appliance database and electronic bulletin board. This action will result in special fund (Energy Resources Program Account) savings in 1996-97 of $281,000. Annual savings thereafter will be $306,000.

Department of Boating and Waterways and Department of Parks and Recreation

1995-96 No Change
1996-97 -$0.6 million HWRF

The Department of Boating and Waterways is proposed to be eliminated and its essential functions transferred to the Department of Parks and Recreation. Additionally, the Boating and Waterways Commission, the Yacht and Ship Broker Program, and the Public/Private Marina and Small Craft Harbors Loan Programs would be eliminated, with the loan portfolio offered for sale. Further, boating law enforcement grants to local governments would be increased. All these actions are proposed to be effective January 1, 1997. This would result in a reduction of 13.5 positions and half-year, special fund (Harbors and Watercraft Revolving Fund) savings of $574,000 in 1996-97, and a net special fund savings in local assistance of $12.7 million (loan program).

Department of Corporations

The Department of Corporations (DOC) proposes to eliminate $9 thousand budgeted for the trading stamp regulatory program. Trading stamps are no longer widely distributed and the DOC currently licenses and regulates only three trading stamp firms. Current departmental activity to administer and enforce the trading stamp law does not directly provide consumer protection.

Department of Motor Vehicles

The Department of Motor Vehicles (DMV) proposes to eliminate the $158,000 budgeted for administration of written drivers' tests for persons who can be tested at high schools or private driving schools. Under this proposal, DMV would waive its administration of the written test for provisional license applicants under 18 who have successfully passed required driver training programs.

State Personnel Board

1995-96 No Change
1996-97 $0.3 million GF

A key component of the Governor's *California Competes* initiative proposal is to fundamentally alter the state's personnel system to benefit both the taxpayers and state workers. To aid in achieving this objective, a one-year augmentation of $280,000 and 3.0 positions is proposed to enable the State Personnel Board to reduce the largest civil service classifications in state government by up to 75 percent, to review and reduce the 1,617 classifications that have five or fewer employees, and to review and ensure all highly skilled job classes are open to outside competition. This effort will be undertaken in collaboration with the Department of Personnel Administration.

Department of Industrial Relations

1995-96 No Change
1996-97 -$0.4 million

This proposal will eliminate 22 positions and transfer 31 positions from the Industrial Medical Council to the Division of Workers' Compensation. This proposal will continue the activities currently performed by the council while providing a more

effective and efficient use of resources. In order to facilitate the transition and to preserve the medical expertise, council members will be retained in an advisory capacity. This proposal will reduce General Fund expenditures by $100,000 and reduce Special Fund expenditures by $304,000 in 1996-97 for a total reduction of $404,000.

Salaries of Board and Commission Members

Currently, salary levels are set in statute for many members of state boards and commissions. These members receive automatic pay raises irrespective of their individual job performance or other fiscal considerations and the Governor does not have authority under current law to appoint members to boards at lower salaries than set by statute. The *California Competes* initiative includes elimination of current statutes that provide automatic pay raises for various state board and commission members. The proposal would repeal the "autopilot" salary increase authority. This reform is proposed in AB 926.

The affected boards and commissions are as follows:

- Unemployment Insurance Appeals Board
- Agricultural Labor Relations Board
- Public Utilities Commission
- California Energy Commission
- Public Employees Relations Board
- Worker's Compensation Appeals Board
- Water Resources Control Board
- Integrated Waste Management Board
- Board of Prison Terms
- Youthful Offender Parole Board
- Occupational Safety and Health Appeals Board
- Narcotic Addict Evaluation Authority
- State Personnel Board
- Air Resources Board

1996-97 State Appropriations Limit Calculation

Pursuant to Article XIIIB of the California Constitution, the 1996-97 State Appropriations Limit (SAL) is estimated to be $42.002 billion. The revised Limit is the result of applying a growth factor of 1.07 percent. The 1996-97 Limit is 6.85 percent greater than the Limit in 1995-96 and $86 million below the $42.080 billion estimated for 1996-97 in January. This increase is due to changes in the following factors:

	January Percentage	May Revision Percentage
Per Capita Personal Income	5.01	4.67
State Civilian Population	1.69	1.58
K-14 Average Daily Attendance	2.35	2.89

The SAL for 1995-96 does not change since it was statutorily determined by Section 12.00 of the Budget Act.

The proposed 1996-97 appropriations subject to limitation are nearly $8 billion dollars under the Limit.

General Fund
Revenues and Expenditures
(Dollars in Billions)

	Revenues	Expenditures
1991-92	$42.0	$43.3
1992-93	$40.9	$40.9
1993-94	$40.0	$39.0
1994-95	$42.7	$42.0
1995-96	$46.1	$45.4
1996-97	$47.1	$46.5

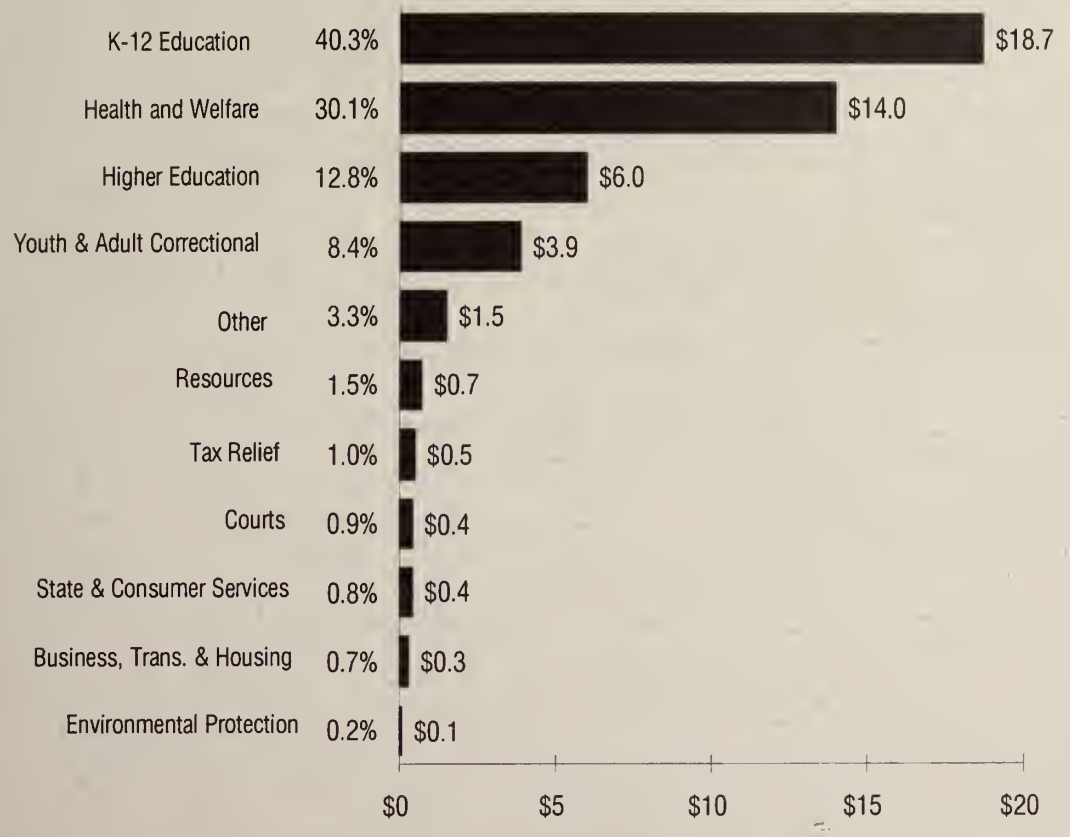
General Fund
Budget Summary
(Dollars in Millions)

	1995-96	1996-97
Prior Year Balance	$548	$235
Revenues and Transfers	$46,137	$47,057
Loan Repayment	-$1,025	--
Total Resources Available	$45,660	$47,292
Expenditures	$45,425	$46,470
Fund Balance	$235	$822
Budget Reserves:		
Special Fund for Economic Uncertainties	(-71)	(516)
Reserve for Liquidation of Encumbrances	(306)	(306)

General Fund Expenditures by Agency
(Dollars in Millions)

	1995-96	1996-97
Legislative, Judicial, Executive	$1,435	$1,280
State and Consumer Services	362	362
Business, Transportation & Housing	274	315
Trade and Commerce	38	40
Resources	857	700
Environmental	86	108
Health and Welfare	14,346	14,003
Youth and Adult Correctional	3,973	3,904
K-12 Education	17,534	18,732
Higher Education	5,569	5,969
General Government	880	1,036
Statewide	71	21
Total--All General Fund	**$45,425**	**$46,470**
January Totals	$44,246	$45,242
Change from January	$1,179	$1,228
% Change from January	2.66%	2.71%

1996-97 General Fund Expenditures
(Dollars in Billions)



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* Judicial and Local Government

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Prepared by the Department of Finance

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